

# PEERS

Retired Members | JULY 2016

## Benefit Check

PUBLIC EDUCATION EMPLOYEE RETIREMENT SYSTEM OF MISSOURI

Actuarial Funding Policy  
Amended, PSRS/PEERS  
Funding Status  
Remains Healthy

PSRS Celebrates  
70 Years

Board Leadership  
Selected for  
2016-2017 School Year

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PUBLIC EDUCATION EMPLOYEE  
RETIREMENT SYSTEM OF MISSOURI

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# Actuarial Funding Policy Amended, PSRS/PEERS Funding Status Remains Healthy

**A**t the June 14, 2016 Public School and Education Employee Retirement Systems of Missouri (PSRS/PEERS) Board of Trustees meeting, the Board voted unanimously to amend the current Actuarial Funding Policies in various areas. The changes to the policies are, in part, a result of the recent Actuarial Experience Studies and Asset Liability Studies conducted by the Systems. These studies are conducted regularly and changes are applied as necessary to keep the Systems financially healthy.

The various assumptions within the Funding Policies that are being amended include inflation rates, payroll growth, mortality rates, investment returns, individual salaries, cost-of-living adjustments (COLAs), retirement rates and refund rates.

The objective of the Systems' Funding Policies is to achieve a funded ratio of 100% over a fixed period, not to exceed 30 years. The principles of the policies are to:

- Maintain adequate assets in order to fund all benefits expected to be paid to members and their beneficiaries
- Maintain stability of contribution rates
- Maintain accountability and transparency
- Promote intergenerational equality
- Provide a reasonable margin for adverse experience to help offset risks
- Review the investment earning assumption in conjunction with the Asset Liability Studies and in consideration of the Board's investment risk profile and tolerance
- Review demographic and economic assumptions in conjunction with actual experience

This allows PSRS/PEERS to continue progress toward reducing the Systems' unfunded liabilities, while keeping member and employer contribution rates at or near current levels.

## The Big Impact on Pension Liabilities: Improved Mortality Rates; Lower Investment Returns

There are two key areas of change facing not only PSRS/PEERS, but all retirement plans: improved life expectancies (mortality rates) and lower expected investment returns. Changes in these two areas have a significant impact on the financial condition of the Systems.

1. People are living longer. Mortality is improving, not just in Missouri, but also across the nation. As a result, actuaries are utilizing updated mortality tables, which reflect this trend. PSRS/PEERS conducted Actuarial Experience Studies to compare our actuarial assumptions to the actual experience of the Systems. In other words, are members living as long as we assumed they would, or are they actually living longer?

**“Educators, and people in general, are living longer and we have to account for that when looking at the liabilities of the Systems. The study shows we will be paying our members longer than was previously assumed.”**

— Aaron Zalis, Board Chairman

Consequently, the revised mortality assumptions better reflect PSRS/PEERS' actual experience, which results in an increase of over \$2.1 billion in liabilities to Systems.

2. Interest rates and future investment returns are projected to be lower than historical

returns. This is reflected in the current low interest rate environment. As a result of a recently conducted Asset Liability Studies, the Systems' investment consultant and actuaries recommended the PSRS/PEERS assumed rate of return for investments be lowered from 8% to 7.75%. “The 30-year return history for the Systems remains above 8%. But with the volatile market environment we have seen this year, and will likely see for the next several years, changing the assumed rate of return was a prudent decision,” stated Chief Investment Officer, Craig Husting. While the change seems modest, the impact is an increase in the Systems' liabilities in excess of \$1.2 billion.

## Available Options

Due to the increase in liabilities the changes have on the financial stability of the Systems, the Board thoroughly explored the three areas in which they can positively impact the financial condition of the Systems: investment earnings, contribution rates and benefits.

## Investment Earnings

The Board reviewed the current investment asset allocation looking for ways to increase PSRS/PEERS' expected investment return. Upon review, and with the recommendation of the investment consultant, the Systems made minor changes to the asset allocation to optimize the investment portfolio. These modest changes will not materially impact the long-term PSRS/PEERS expected return.

Expected investment returns and risk are highly correlated. Thus, if an investor takes on additional risk, there is an expectation for higher returns. However, the Board believes that the proposed asset allocation provides a prudent level of risk. It was determined that PSRS/PEERS should not make major changes to the asset allocation that would cause the Systems to take on significantly more risk in hopes of improving returns.

*Continued on page 4*



Contribution Rates

As fiduciaries, PSRS/PEERS Trustees have the important responsibility to annually set contribution rates to adequately fund PEERS. Rates are recommended annually by the System’s actuary, and by law cannot increase more than .5% per year. PEERS active members currently pay 6.86% of their salaries, with employers also paying 6.86%. The overall contribution rate of 13.72% is in line with the national average of similar plans.

Benefits

PSRS/PEERS benefits are established under Missouri law. Consequently, the Board has very little flexibility within the law to alter the current benefit structure without action of the General Assembly. One area in which the Board has limited discretion is setting annual benefit increases in the form of COLAs.

Current COLA Statutory Framework		
Change in Consumer Price Index (CPI-U)	Minimum Adjustment	Maximum Adjustment
<0%	0%	0%
0%-2%	0%	5%
2%-5%	2%	5%
>5%	5%	5%

- The factors evaluated by the Board when setting the COLA include:
- Changes in the cost of living reflected by the Consumer Price Index for Urban Consumers (CPI-U) for the preceding fiscal year
  - The recommendation of the PSRS/PEERS actuary based on the CPI-U and the PEERS Funding Policy

PEERS retirees are eligible for COLAs the fourth January following their retirement date. Since 2011, the PEERS Funding Policy stated that a 2% COLA would be granted in the years when the change in the CPI-U for the previous fiscal year was between 0% and 5%.

Because of the recent low CPI-U, this policy resulted in retirees receiving more than the actual CPI-U over the previous five years. The fiscal-year-to-date 2016 CPI-U remains considerably under the 2%, which would continue this trend.

The Impact of COLAs is Significant

It is important to note that COLA payments have a material effect on the overall cost of the retirement plan. The actuary has projected that the estimated cost of a one year 2% COLA is a \$450 million increase in PSRS/PEERS’ liabilities.

The amended Funding Policies state that in years when the CPI-U for the previous fiscal year is between 0% and 2%, no COLA will be given. Changing the way COLAs are granted results in the following:

- PSRS/PEERS experiences an overall savings of \$2.7 billion in liabilities, which is expected to keep current contribution rates steady.
- The pre-funded status remains above 80%, which is considered a healthy status.
- Actuarial assumptions provide that retirees will still receive an average annual COLA of 1.5% over their retired lives.
- Retirees have peace of mind that the annual benefit increase will be 2% if actual inflation is 2% or greater.
- Retirees retain upside protection if inflation is high. If the CPI-U is greater than 5%, a 5% COLA would be granted.
- Active and retired members continue to share a commitment to the future financial health of the Systems. This is because COLAs are applied to both current and future benefits.

“As Trustees, our responsibility is to keep the Systems financially healthy. Amending the current Funding Policies is necessary in keeping with that responsibility,” Zalis stated. “The Board feels the COLA change will help keep contribution rates steady, while at the same time, still provide protection against inflation when needed for our retirees.

However, the overall financial health of the Systems and future contribution rates will be heavily influenced by investment markets moving forward.”

The Goals Remain the Same

Implementation of all of these policy changes allows PSRS/PEERS to continue to fulfill the Funding Policy objective and principals, as well as the overall goals of the Systems that have been in place since 1946.

- To provide retirement security to Missouri’s educators and education employees after a full career of service

- To help school districts attract and retain the best and brightest educators and employees for Missouri’s school children
- To manage the Systems in a prudent and cost efficient manner

The challenges of increased life spans and low interest rates are being felt by pension plans all across the country. It is important to note that PSRS/PEERS remains in healthy financial condition. But making changes now only helps the Systems continue to provide strong, stable and secure retirement benefits for both current and future members.

Information for New Retirees

Congratulations to each of our 2016 retirees! We hope you enjoy your retirement to the fullest. Here is a bit of helpful information to get you started off right.

Direct Deposit

Your benefits are paid by direct deposit on the last working day of each month. The deposit dates for the remainder of 2016 are below.

We don’t send monthly pay stubs or deposit statements. However, we will notify you any time your benefit amount changes, such as if you change your income tax withholding. You also get an annual **Benefit Statement** each January showing the amount of your benefit, income tax withholding and any cost-of-living adjustments (COLAs) you receive.

2016 Direct Deposit Schedule	
Payment for:	Will be Deposited:
July	July 29
August	August 31
September	September 30
October	October 31
November	November 30
December	December 30

Cost-of-Living Adjustments

You are eligible for cost-of-living adjustments (COLAs) on your monthly benefits beginning the fourth January following your retirement date. For example, if you retire July 1, 2016 you become eligible for COLAs in January 2020.

The COLA amount is determined each August/September by the Board of Trustees based on the Consumer Price Index for Urban Consumers (CPI-U) and the recommendation of the PSRS actuary based on the funding policy.

Get Information 24/7 on our Website

We look forward to speaking with you anytime you have questions or need assistance. But often you can get the information or forms you may need by visiting our website, **www.psrs-peers.org**. If you haven’t already, we recommend that you register for online access to your personal membership information using PEERS Web Member Services.



Not Registered for Web Member Services? Register today to view your membership information online via PEERS Web Member Services. Need help registering? Visit our videos web page to view a short video on how to register or call (800) 392-6848.



# Social Security and Medicare Basics

**S**ocial Security and Medicare are separate programs, but both are designed to help with the challenges of our senior years. Social Security provides monthly benefits to retirees, people with disabilities and people who have lost their spouses and breadwinners. Medicare, which is run by the Centers for Medicare and Medicaid Services (CMS), is the nation's health insurance program for people 65 and older and the disabled.

## Social Security

If you are, or will be, receiving a Social Security benefit based on your Social Security earnings history, it should not be reduced by your Public Education Employee Retirement System of Missouri (PEERS) benefit. Your PEERS benefit will not be reduced because of Social Security or any other pension.

You can begin getting reduced Social Security retirement benefits as early as age 62. If you wait until your full retirement age (66 for most people), you will get full (unreduced) Social Security benefits.

If you haven't already, consider setting up a mySocialSecurity account at [www.socialsecurity.gov](http://www.socialsecurity.gov). Using a secure mySocialSecurity account, you can access your Social Security Statement, get a benefit verification letter, and even file for retirement with Social Security. If you receive Social Security benefits, you can also update your address and direct deposit information using your mySocialSecurity account.



If you have Social Security questions, contact the Social Security Administration at (800) 772-1213, or refer to the Social Security website, [www.socialsecurity.gov](http://www.socialsecurity.gov).

## Medicare

If you are a U.S. citizen or a lawfully admitted alien who has lived in the U.S. for at least five years, you can receive Medicare benefits at age 65.

Important notes regarding Medicare:

- Specific enrollment periods exist.
- If you do not enroll when first eligible, you may pay higher premiums later.
- If you are eligible for Medicare and choose not to enroll because you have coverage through a private insurance group, your insurance may not cover any expenses that Medicare would have paid.

There are four parts to Medicare. You can choose to participate in any or all parts.

- Medicare Part A, Hospital Insurance, pays for inpatient hospital expenses, hospice care and skilled home health services for homebound patients, and helps with short-term, inpatient care in skilled nursing facilities if the patient is there for rehabilitation.
- Medicare Part B, Medical Insurance, helps pay for doctors' services, outpatient hospital care and some medical equipment and supplies.
- Medicare Part C, Medicare Advantage Plans, are private plans that include emergency and urgent care.
- Medicare Part D provides prescription drug coverage.



If you have Medicare questions, contact CLAIM, the Missouri State Health Insurance Assistance Program, at (800) 390-3330 or visit their website [www.missouricclaim.org](http://www.missouricclaim.org) for specific information about your entitlement to Medicare benefits.

You can also contact Medicare directly at **1-800-MEDICARE (1-800-633-4227)** or [www.medicare.gov](http://www.medicare.gov).

# Legislative Session Ends with No Changes for PSRS/PEERS



**T**he second 98<sup>th</sup> Regular Session of the Missouri Legislature officially ended Friday, May 13 at 6 p.m. We are happy to report there was no legislation passed that had a negative impact on the Public School and Education Employee Retirement Systems of Missouri (PSRS/PEERS). This effort was accomplished by the active involvement of numerous educational associations, retired and active members contacting their respective legislators and our legislative team who spent many hours walking the floors of the Capitol and monitoring numerous committee hearings and floor debate.

A detailed report of the 98<sup>th</sup> Missouri Legislative Session was presented at the June PSRS/PEERS Board of Trustees meeting. If you have any questions regarding the status of particular legislation, please feel free to contact Maria Walden, director of legislation and policy at (573) 638-1084.

# PSRS Celebrates 70 Years

**P**EERS' sister plan, the Public School Retirement System of Missouri (PSRS), marks its 70<sup>th</sup> year providing lifetime retirement benefits for Missouri's public school teachers this July.

Missouri was the 47<sup>th</sup> state to adopt legislation leading to a statewide teacher retirement system. PEERS, then called the Non-Teacher School Employee Retirement System or NTRS, was later established in 1965 to provide similar benefits for non-certificated public school employees.

## Meeting the Needs of a Growing Membership

Although both PSRS and PEERS have changed over the years, our dedication to providing outstanding service and retirement security to our membership has remained constant.



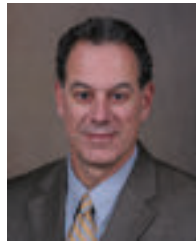
We are proud to have served our membership in both Systems, and look forward to doing so far into the future.

## Heath and Zalis Win Board of Trustees Election, Retain Seats for Four More Years

**Y**vonne Heath and Dr. Aaron Zalis have been re-elected by the membership of the Public School and Education Employee Retirement Systems of Missouri (PSRS/PEERS) to retain their seats on the PSRS/PEERS Board of Trustees, each receiving more votes than challengers, Marla Moody and Bill Miller.



Yvonne Heath



Dr. Aaron Zalis

“Yvonne and Aaron have brought considerable knowledge, experience and expertise to our Board in the years they have served,” said Yoakum. “Our members will be well-served with their Board service for another four years.”

The election was administered by an independent election service. Members had the option to vote by telephone, internet or U.S. Mail. A total of 26,242 members voted, with 82% of those votes cast by mail, 12% via the internet, and 6% by telephone. Thank you to all who voted.

Heath and Zalis re-join current Board members Jason Hoffman, Scott Hunt, Jason Steliga and Wayne Wheeler. One governor-appointed citizen position on the Board is currently vacant.

## Board Leadership Selected for 2016-2017 School Year

**A**t their April meeting, the PSRS/PEERS Board of Trustees elected leadership for the 2016-2017 school year. Demonstrating their continued confidence in current leadership, trustees re-elected Dr. Aaron Zalis of Rolla Public Schools to continue to serve as chair, and Jason Hoffman of Jefferson City Public Schools to continue to serve as vice chair. To read more about our trustees, visit us online at [www.psr-peers.org](http://www.psr-peers.org).



Dr. Aaron Zalis



Jason Hoffman

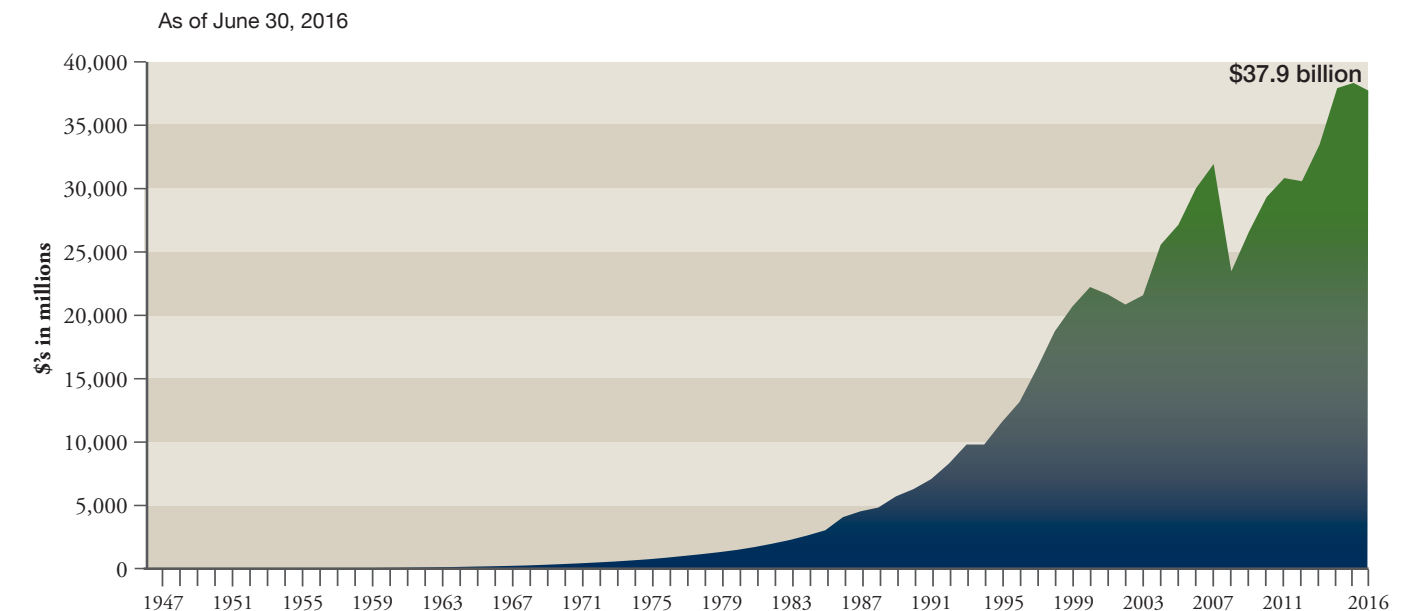
In other actions, the Board voted to hold the interest rate paid on active members' contributions at 1%, and set the rate charged on

reinstatements and applicable service purchases at 7.75%, the Systems' assumed rate of return, for the 2016-2017 school year.

## Your Retirement Assets at 70 Years

**A**s we celebrate the 70<sup>th</sup> anniversary of the Public School Retirement System of Missouri (PSRS), it is interesting to look back at the significant increases that have taken place in the assets held by both PSRS and the Public Education Employee Retirement System of Missouri (PEERS) since the inception of PSRS in 1946 and PEERS in 1965.

The graph below depicts that growth, which was partially funded through contributions from both members and employers over the last 70 years. More importantly, the graph captures the dramatic growth in assets fueled by investment earnings over the life of both Systems. In the last 20 years alone, over 60% of the increase in PSRS/PEERS assets was generated through investment earnings.



One of the many advantages of Defined Benefit (DB) plans such as PSRS and PEERS is the ability to combine the assets of the members and employers for investment purposes.

### Advantages of Combining Member and Employer Assets

- The resulting larger investment pool allows the Systems to invest with a longer, collective time horizon, which in turn **increases the expected investment return** on the assets.
- The more substantial investment pool allows the Systems to negotiate **much lower investment fees** than an individual would pay. The lower investment expenses allow a DB plan to compound investment earnings at a higher rate over time.
- The ability to combine the contributions of all PSRS/PEERS members and employers for investment purposes over the last 70 years has proved to be a distinct advantage for the Systems. The pooling of the assets has strengthened the capability and sustainability of both PSRS and PEERS to meet the ultimate objective of providing secure retirement income for our members.



## Working After Retirement Rules and Record-Keeping

Working as a retiree for a PEERS-covered employer can be rewarding and beneficial for you and your school district. Follow these steps to successfully work as a retiree for PEERS-covered employers without affecting your retirement benefits.

### Step 1: Proper Termination of Employment

Before you can retire or work for a PEERS-covered employer as a retiree, you must properly terminate your pre-retirement employment. PEERS requires a separation period of **one month** from your PEERS retirement date.

To properly terminate pre-retirement employment, you must:

- End all employment with all PEERS-covered employers.
- Not return to work for a PEERS-covered employer in any capacity for a period of **one month** after your PEERS retirement date, including volunteer work if you later become a paid employee with the same employer in the same, or a similar position.
- Not be under contract for employment at a PEERS-covered employer in any capacity until after receiving your first PEERS retirement benefit. A contract includes any type of early retirement incentive or separation agreement that requires you to work or volunteer in any capacity after retirement in return for salary (including health insurance benefits).



**NEW:** Effective July 1, 2016, you cannot enter into any agreement, written or unwritten, for future employment in any capacity for a PEERS-covered employer until after you have received your first benefit payment.

If you violate these rules, you are not eligible to receive benefits or work at a PEERS-covered employer as a retiree. In addition, you are required to repay any benefits received while ineligible, and may be required to pay contributions on your salary until you properly terminate your employment.

### Step 2: Stay Within the Limit on Hours

If you work for a PEERS-covered employer and plan to continue receiving your retirement benefits, you can work up to 550 hours part-time or as a temporary substitute each full school year (July 1 – June 30). If you exceed the limit on hours, your benefits stop.

If you retire in a month other than July, your limits will be pro-rated for the rest of that school year.

### What Happens if You Exceed the Limit?

As long as you do not exceed the limit and do not become a full-time, regular employee, you will continue to receive your benefits. However, your retirement benefits stop effective the month you exceed the hourly limit. **The minimum you will forfeit is one full monthly benefit.**

### Step 3: Keep a Record of Your Work

All PEERS retirees working for covered employers on a part-time or temporary-substitute basis are required to maintain a record of the hours worked each month with each PEERS-covered employer. Employers are also required to maintain such records and report the information to PEERS with each payroll.

You can view the hours reported for you by your employers by logging in to view your membership in PEERS Web Member Services at [www.psr-peers.org](http://www.psr-peers.org).

When it comes to tracking your employment, it is important to stay in contact with your employer. Make sure you understand how your work is tracked and that your records agree. If they don't, we consider the employer's records official. If you have questions about tracking your hours, please contact your employer.

### Considering Teaching for a Missouri Public Two-Year College?

Missouri's public two-year colleges most often quantify classroom teaching time in terms of credit hours rather than clock hours. If your post-retirement work includes time teaching at a PEERS-covered public two-year college, you must use the simple formula at right to convert the credit hours you teach to clock hours for retirement purposes.



### Conversion Formula

You will receive more information on the conversion when you return to work. If you are considering this type of work, please contact us for more information.

Learn more about working after retirement on our website, [www.psr-peers.org](http://www.psr-peers.org), contact us at (800) 392-6848 or email [psrpeers@psrpeers.org](mailto:psrpeers@psrpeers.org).



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